



# NORTH CAROLINA GENERAL ASSEMBLY

## 2025 Session

### Legislative Fiscal Note

**Short Title:** Affordable Housing Exemption Mods.  
**Bill Number:** House Bill 1042 (Second Edition)  
**Sponsor(s):** Rep. Paré, Rep. Howard, Rep. Setzer, and Rep. Schietzelt

#### SUMMARY TABLE

#### FISCAL IMPACT OF H.B. 1042, V.2 (\$ in millions)

	<u>FY 2026-27</u>	<u>FY 2027-28</u>	<u>FY 2028-29</u>	<u>FY 2029-30</u>	<u>FY 2030-31</u>
<b>Local Impact</b>					
Local Revenue	-	22.0	25.1	28.6	32.6
Less Local Expenditures	-	-	-	-	-
<b>NET LOCAL IMPACT</b>	-	<b>\$22.0</b>	<b>\$25.1</b>	<b>\$28.6</b>	<b>\$32.6</b>

#### FISCAL IMPACT SUMMARY

The bill has a fiscal impact because it modifies and adds to the criteria that must be met to qualify for the low- and moderate-income housing property tax exclusion. FRD estimates the bill will reduce the number of properties receiving the exclusion and will increase local revenues by around \$22 million annually beginning in FY 2027-28.<sup>1</sup>

#### FISCAL ANALYSIS

Current state law allows nonprofit entities that own low- and moderate-income housing properties an exclusion from property tax. In recent years, private developers have partnered with or created their own nonprofit organizations, with a primary reason being to avail themselves of the preferential tax treatment current state law provides to nonprofit organizations. A common arrangement is such low- and moderate-income housing property to be 99% owned by a private entity, with a non-profit organization maintaining a 1% ownership stake. The private developer funds the affordable housing project (acquisition, construction, renovation, etc.), sometimes with and sometimes without government funding (such as through a federal tax credit program). The bill would prohibit joint ventures that do not finance affordable housing with at least some government funding from qualifying for the property tax exemption; receiving such

<sup>1</sup> The bill also a) modifies the payback period of deferred taxes for property receiving the exclusion for future affordable housing purposes that is never developed, and b) only allows non-government financed properties to qualify if the properties are 100% nonprofit owned and operated and limits the exclusion amount to the property's percentage of units meeting certain rent requirements; the fiscal impact of these changes is not estimated largely due to the lack of available data, but is expected to be minimal given these are not common.

funds often carry corresponding requirements, such as tenant income limits and requirements for long-term affordable housing. In summary, affordable housing projects that are entirely self-financed, even in partnership with a nonprofit organization, would no longer receive the property tax exclusion.

County assessors report seeing a substantial increase in the use of the low- and moderate-income housing exclusion since FY 2022-23. As Table 1 shows, FRD verified this observation using available exclusion data that showed:

- from FY 2015-16 to FY 2022-23, the total value of property excluded due to this exclusion increased an average of 14% per year, but
- from FY 2022-23 to FY 2024-25, these excluded values increased by an average of 38% annually, with the most recent fiscal year showing a 54% year-over-year change.

These increases in excluded property decreases the taxable base, which leads to decreased collections in affected local governments.

**Table 1: Property Values Excluded Due to Low- and Moderate-Income Housing Exclusion Have Increased Substantially in Recent Years**

FRD used the average levy change due to the exclusion over the respective periods listed above given the pre- and post-spike in valuations, which is assumed to be due to the new way developers are qualifying for the exclusion. FRD used two similar approaches to estimate the fiscal impact, one for properties currently receiving the exclusion and one for likely future properties.

- **Current properties.** FRD computed the average year-over-year change in lost property tax revenues due to the exclusion. Then FRD determined the average year-over-year change in levies lost since the time county assessors reported experiencing an increase, which FRD validated by the data shown above. FRD then added the average pre-spike year-over-year levy change to FY 2022-23 levies and compared it to the average post-spike total levy lost. The difference between these two reflects the estimated fiscal impact of the estimated \$11 million local governments are expected to recoup in FY 2027-28 and annually thereafter due to the assumption that most projects in the “post-spike” period not meeting the bill’s requirements.
- **Future properties.** FRD used these same year-over-year changes to represent the additional revenues local governments will no longer lose due to the bill’s new requirements. As discussed earlier, county assessors stated there has been a continued increase in interest and applications for the current exclusion. To account for this demand, FRD assumes the post-spike growth discussed above would have also continued but for the bill. Therefore, FRD estimates an additional \$11 million in avoided unforeseen revenues for local governments for new properties recently or soon-to-be qualified for the exclusion but for the bill’s new requirements.

Therefore, FRD estimates the bill will increase local government revenues by around \$22 million annually. FRD notes that the bill’s fiscal impact would only be on local governments with properties currently receiving or likely to receive the exclusion in the future. For reference, 10

counties account for nearly 80% of all the excluded property due to the low- and moderate-income exclusion, all of which are in more populated and urban areas of the state.

The estimates herein are limited by several factors, including the number of properties currently receiving the exclusion that would no longer receive it due to the bill's requirements—based on discussions with county assessors, FRD assumes nearly all current recipients of the exclusion will not meet these new requirements (particularly for receiving government funds for these purposes since many are for only a fixed amount of funding is available). Next, reliable data on the number of projects with pending applications or ones that would be submitted for future exclusion to counties is unknown; however, anecdotal evidence from county assessors indicate the spike discussed above has continued and has accelerated in some cases in the current fiscal year. Further, the estimate does not address the change to the required payback of deferred taxes since the bill reduces from 10 years to 5 years the amount of time property can receive the exclusion while being held without being developed for such purposes, because the amount of such property is unknown.

In addition, the estimate does not account for the impact of the bill tying the amount of property excluded to the percentage of units meeting rent and income requirements, which the bill would also require to be 100% nonprofit owned and operated. This is due to a lack of available data. However, FRD estimates these two elements of the bill to have an unknown, but likely minimal, fiscal impact on local governments.

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## **TECHNICAL CONSIDERATIONS**

N/A.

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## **DATA SOURCES**

NC Department of Revenue; Various NC county tax assessors.

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## **LEGISLATIVE FISCAL NOTE – PURPOSE AND LIMITATIONS**

This document is an official fiscal analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts.

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## **CONTACT INFORMATION**

Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.

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